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Chapter 7

Organizing for Success

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Learning Objectives

LO 1 Define the fundamental characteristics of organizational structure.

LO 2 Distinguish among the four dimensions of an organization's vertical structure.

LO 3 Give examples of four basic forms of horizontal structures of organizations.

LO 4 Describe important mechanisms used to coordinate work.

LO 5 Discuss how organizations can improve their agility through strategy, commitment to customers, and technology use.

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Fundamentals of Organizing 1

Organization Chart

- The reporting structure and division of labor in an organization.
- The chart on the next slide resembles those familiar to Max Weber when he wrote about bureaucracy in the early 20th century.

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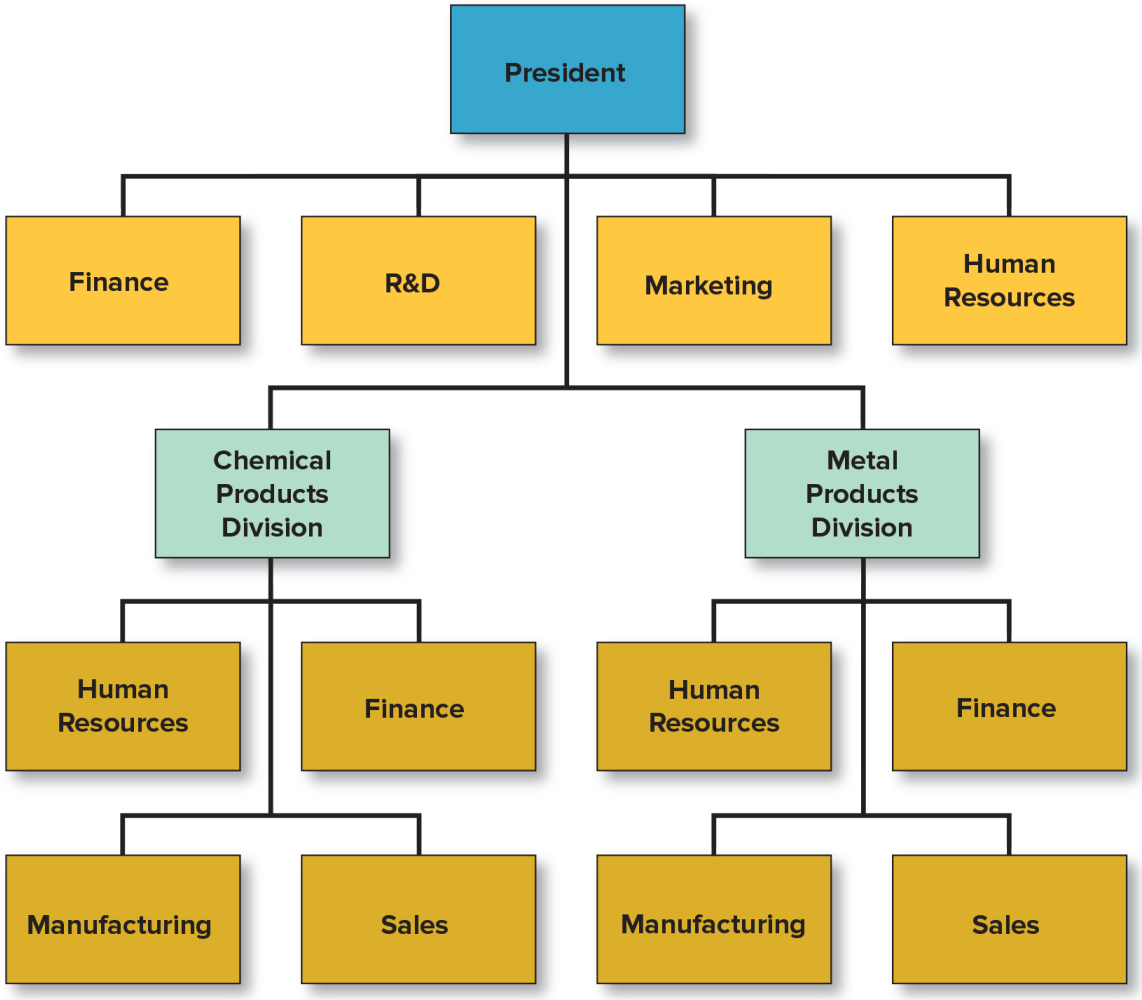
Exhibit 7.1 A Conventional Organization Chart



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Fundamentals of Organizing 2

Mechanistic Organization

- A form of organization that seeks to maximize internal efficiency.

Organic Structure

- An organizational form that emphasizes flexibility.

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Exhibit 7.2 Comparison of Mechanistic and Organic Organizations

Characteristic	Mechanistic	Organic
Degree of formality	Formal	Informal
Primary emphasis	Efficiency	Flexibility
Job responsibility	Narrowly defined	Broad and evolving
Communication	Orders and instructions	Advice and information
Decision making	Centralized	Decentralized
Expression of commitment	Obedience to authority	Commitment to organization
Source of guidance	Rules	Personal judgment
Employee Interdependence	Limited, when necessary	Employees feel interconnected

Source: Adapted from T. Burns and G. Stalker, *The Management of Innovation* (London: Tavistock, 1961).

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Fundamentals of Organizing 3

Differentiation

- An aspect of the organization's internal environment created by job specialization and the division of labor.

Integration

- The degree to which differentiated units work together and coordinate their efforts.

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Differentiation Creates Specialized Jobs

Organizational Structure

Division of labor is the assignment of different tasks to different people or groups.

Specialization is a process in which different individuals and units apply their specific skills to perform different tasks.

Differentiation is high when an organization has:

- Many subunits.
- Many specialists who think differently and do different work.

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Integration Coordinates Employees' Efforts

Coordination

Procedures linking various parts of an organization for the purpose of achieving its overall mission.

The more highly differentiated the firm, the greater the need for integration among its units.

- Vertical differentiation.
- Horizontal differentiation.
- Structural differentiation.

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The Vertical Structure

Vertical Structure

- A firm’s vertical structure—authority, span of control, delegation, and centralization—shapes reporting relationships, responsibility, and accountability.

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Authority Is the Vertical Glue 1

Authority

The legitimate right to make decisions and tell other people what to do.

In private enterprises, owners have ultimate authority.

In larger companies, top management structure has several components:

- Board of directors.
- Chief executive officer.
- Top management team.

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Authority Is the Vertical Glue 2

Authority continued

Formal position authority is generally the primary means of running an organization.

Authority is not always position-dependent.

- Informal authority is also important.

Trend toward flatter structures with fewer layers.

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Span of Control and Layers Influence a Manager's Authority

Span of Control

Number of subordinates who report directly to an executive or supervisor.

Narrow spans.

- Tall organization with many reporting levels.

Wide spans.

- Flat organization with fewer reporting levels.

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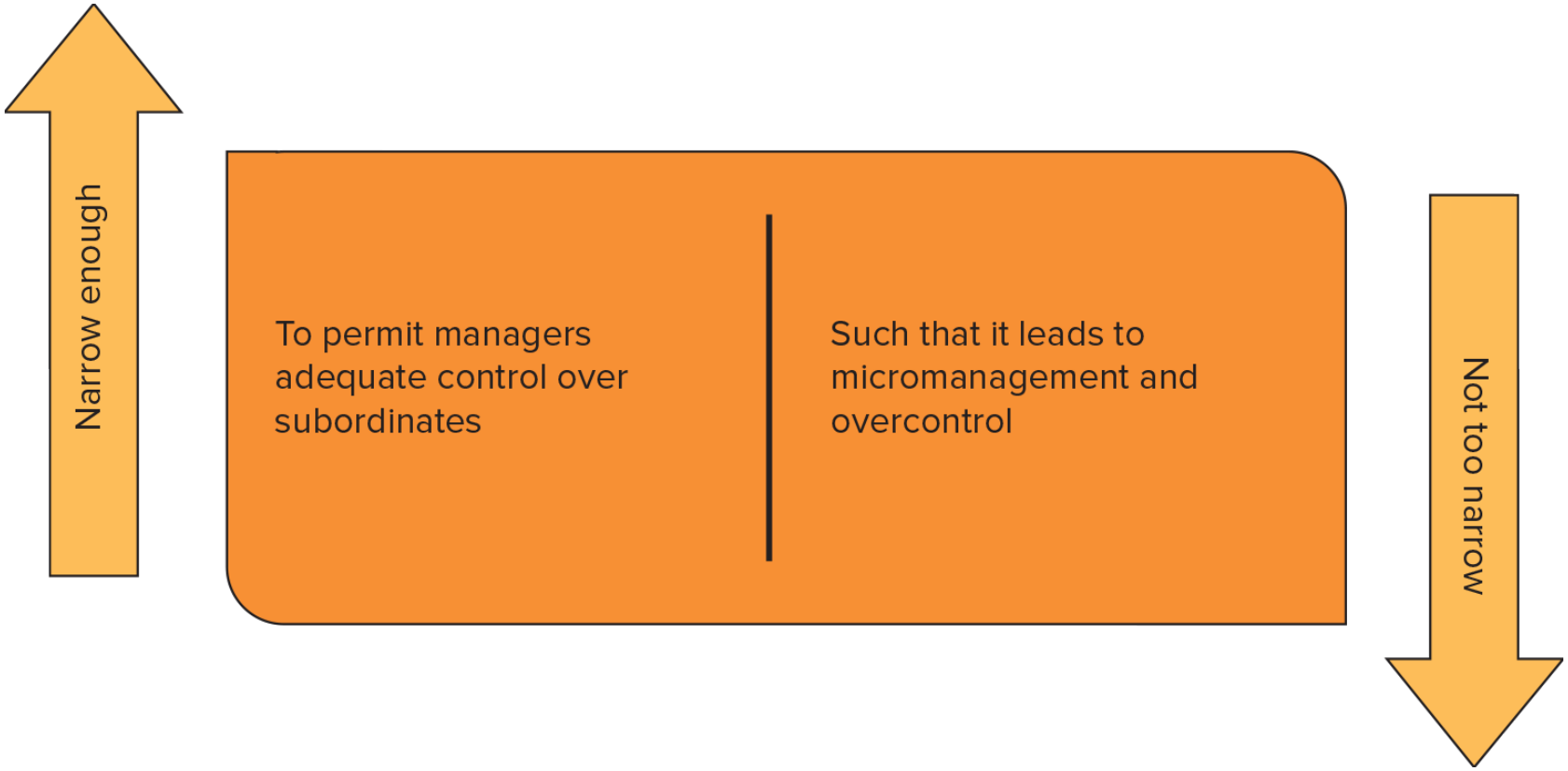
Exhibit 7.3 The Optimal Span of Control Is a Balancing Act


Narrow enough
To permit managers adequate control over subordinates
Such that it leads to micromanagement and overcontrol
Not too narrow

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Delegation Is How Managers Use Others' Talents 1

Delegation

The assignment of new or additional responsibilities to a subordinate.

- Most fundamental process of management at all levels.
- Not all managers are comfortable delegating.

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Delegation Is How Managers Use Others' Talents 2

Responsibility, Authority, and **Accountability**

Responsibility means that a person is assigned a task to carry out.

Authority is the legitimate right to make decisions and to tell other people what to do

Accountability means the subordinate's manager has right to expect subordinate to perform the job, and right to take corrective action if the subordinate fails to do so.

- Managers remain responsible and accountable for actions of their subordinates.

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Exhibit 7.4
Advantages of Effective Delegation

LEVERAGES managers' time and employees' talent.
CONSERVES managers' most valuable asset: time.
DEVELOPS subordinates' managerial skills and knowledge.
PROMOTES subordinates' sense of importance, achievement, and commitment.

Source: Adapted from Z. X. Chen and S. Aryee, "Delegation and Employee Work Outcomes: An Examination of the Cultural Context of Mediating Processes in China," *Academy of Management Journal* 50, no. 1 (2007), pp. 226–38.

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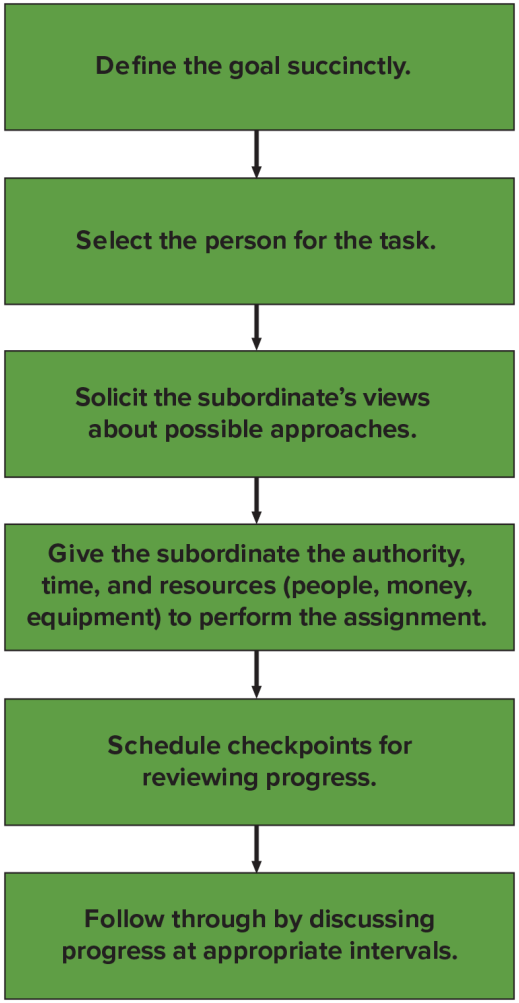
Exhibit 7.5 Steps in Effective Delegation


Define the goal succinctly.
Select the person for the task.
Solicit the subordinate's views about possible approaches.
Give the subordinate the authority, time, and resources (people, money, equipment) to perform the assignment.
Schedule checkpoints for reviewing progress.
Follow through by discussing progress at appropriate intervals.

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Decentralizing Spreads Decision-Making Power

Centralized Organization

- An organization in which high-level executives make most decisions and pass them down to lower levels for implementation.

Decentralized Organization

An organization in which lower-level managers make important decisions.

- Decision making happens at point of action.
- Allows faster action.

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Decentralization

Burgerville is known for its progressive business practices and commitment to local resources.

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The Horizontal Structure

Subdivisions

Line departments are units that deal directly with the organization's primary goods and services.

Staff departments are units that support line departments.

- Includes research, legal, accounting, public relations, and human resources departments.
- Three basic approaches to **departmentalization:** functional, divisional, and matrix.

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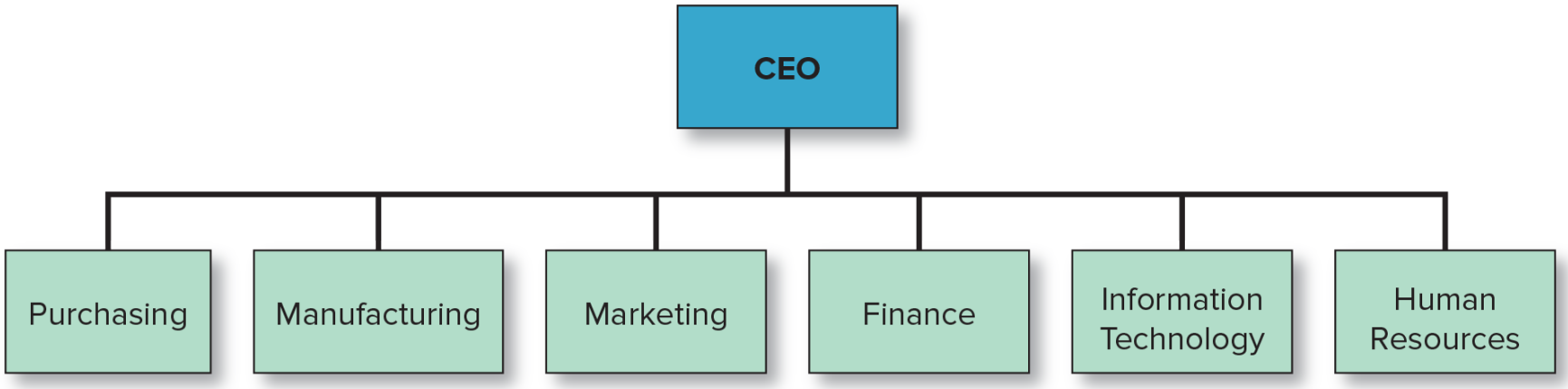
Functional Structures 1

Functional Structure

- Departmentalization around specialized activities such as production, marketing, and human resources.

Exhibit 7.6 The Functional Structure



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Functional Structures 2

Advantages of the Functional Approach

1. Economies of scale can be realized.
2. Monitoring of the environment is more effective.
3. Performance standards are better maintained.
4. There is greater opportunity for specialized training and in-depth skill development.
5. Technical specialists are relatively free of administrative work.
6. Decision making and lines of communication are simple and clearly understood.

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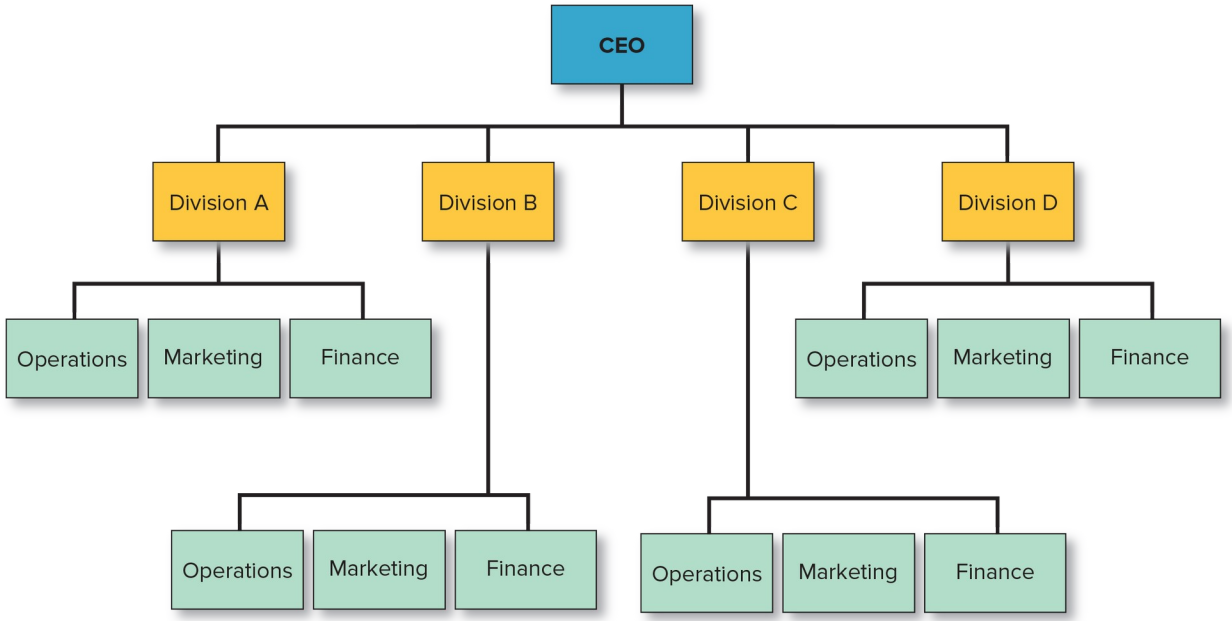
Divisional Structures 1

Divisional Structure

- Departmentalization that groups units around products, customers, or geographic regions.

Exhibit 7.7 The Divisional Structure



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Divisional Structures 2

Product Divisions

1. Information needs are managed more easily.
2. People have a full-time commitment to a particular product line.
3. Task responsibilities are clear.
4. Managers learn more about various business functions.

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Divisional Structures 3

Customer Divisions

- Built around the needs of specific customers.

Geographic Divisions

Structured around geographic regions.

- District, territory, region, country.

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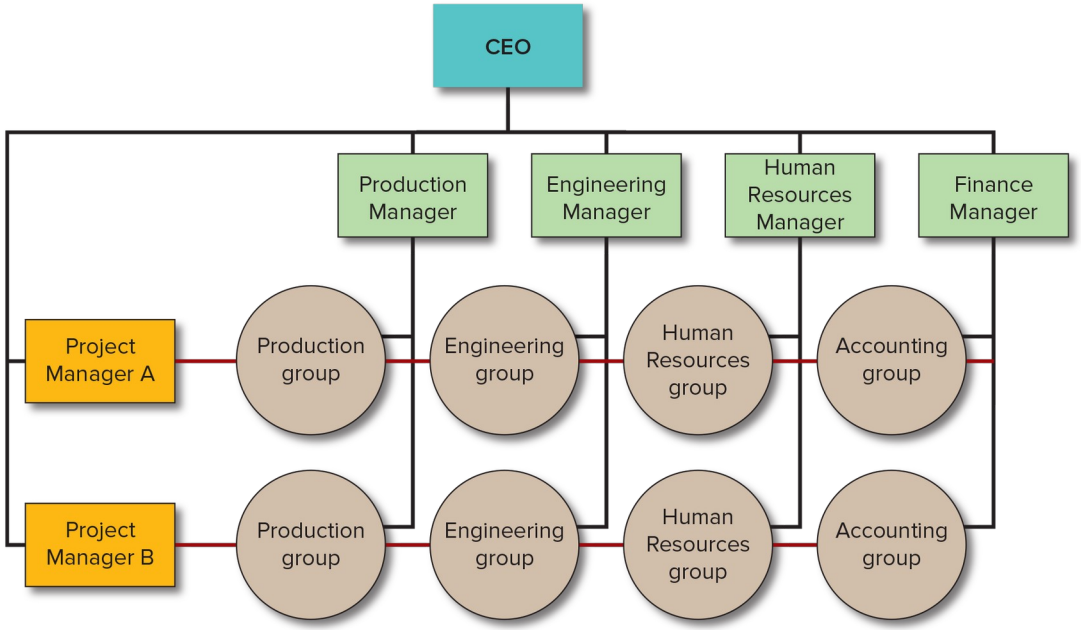
Matrix Structures 1

Matrix Structure

- An organization composed of dual reporting relationships in which some managers report to two superiors—a functional manager and a divisional manager.

Exhibit 7.8
Matrix Structure



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Matrix Structures 2

Advantages of the Matrix Structure

1. Cross-functional problem solving leads to better-informed and more creative decisions.
2. Decision making is decentralized.
3. Extensive communications networks help process large amounts of information.
4. Higher management levels are not overloaded.
5. Efficient resource use.
6. Employees learn collaborative skills.
7. More career options become available.

- Violates the **unity-of-command principle**.

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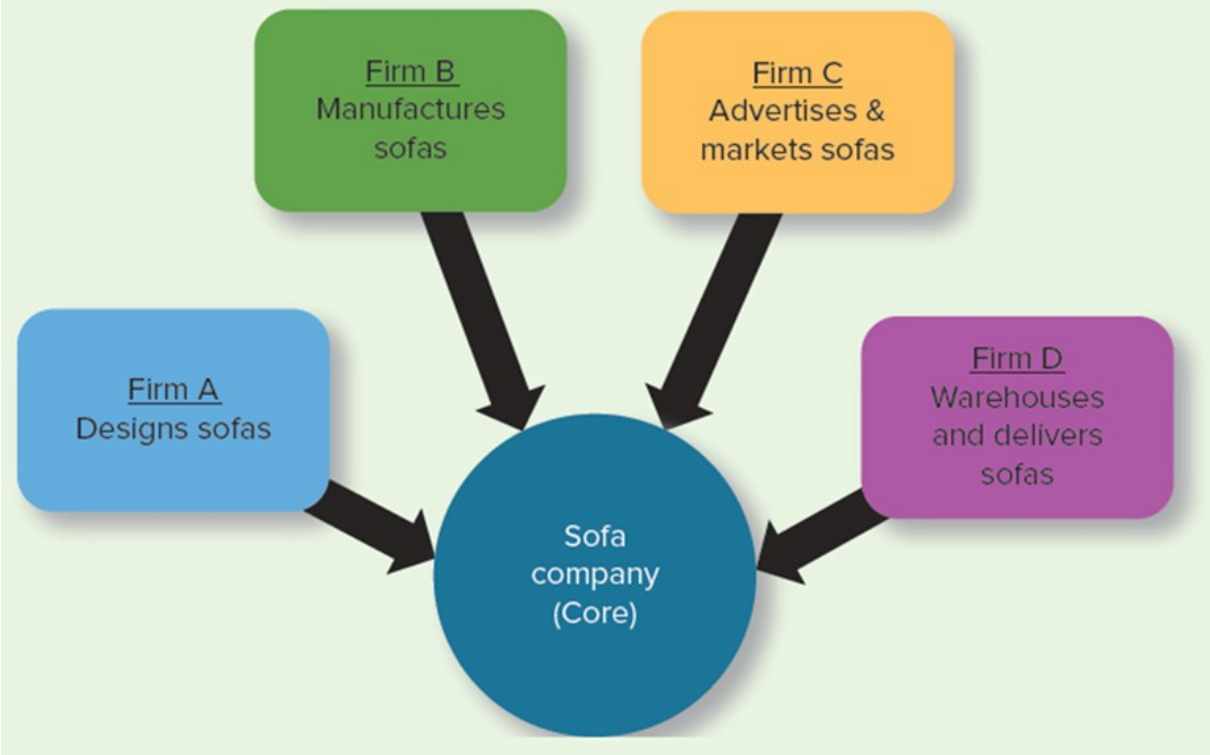
Network Organizations 1

Network Organizations

- A collection of independent, mostly single-function firms that collaborate on a good or service.

Exhibit 7.9
Example of a Network Organization



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Network Organizations 2

Modular Network

Temporary arrangements among partners that can be assembled and reassembled to adapt to the environment.

Also called a virtual network.

Broker assembles and coordinates participants in a network.

- Roles include designing, process engineering, and nurturing.

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Organizational Integration

Integration and Coordination

- The more differentiated the organization, the more difficult the integration.
- Division of labor causes different units to develop different orientations.
- Managers can use a variety of approaches to foster coordination among interdependent units and people.

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Standardization Coordinates Work Through Rules and Routines

Standardization

- Establishing common routines and procedures that apply uniformly to everyone.
- **Formalization:** involves rules and regulations governing how people in the organization act and interact.

Organizations of all types have established routines and standard operating procedures so employees, customers, and other stakeholders know how to work and interact with one another.

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Plans Set a Common Direction

Method of Coordination

With **coordination by plan**, interdependent units create deadlines and objectives that contribute to a common goal.

- Allows some flexibility, as long as deadlines are met.

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Mutual Adjustment Allows Flexible Coordination

Method of Coordination

With **coordination by mutual adjustment**, units interact with one another to make accommodations to achieve flexible coordination.

- Simplest and most flexible method.
- Good method for teams.
- Make take more time.

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Coordination Requires Communication

Managing High Uncertainty and Heavy Information Demands

1. Reduce the need for information.
    - Create slack resources.
    - Create self-contained tasks.
2. Increase information-processing capability.
    - Invest in information systems.
    - Engage in knowledge management.

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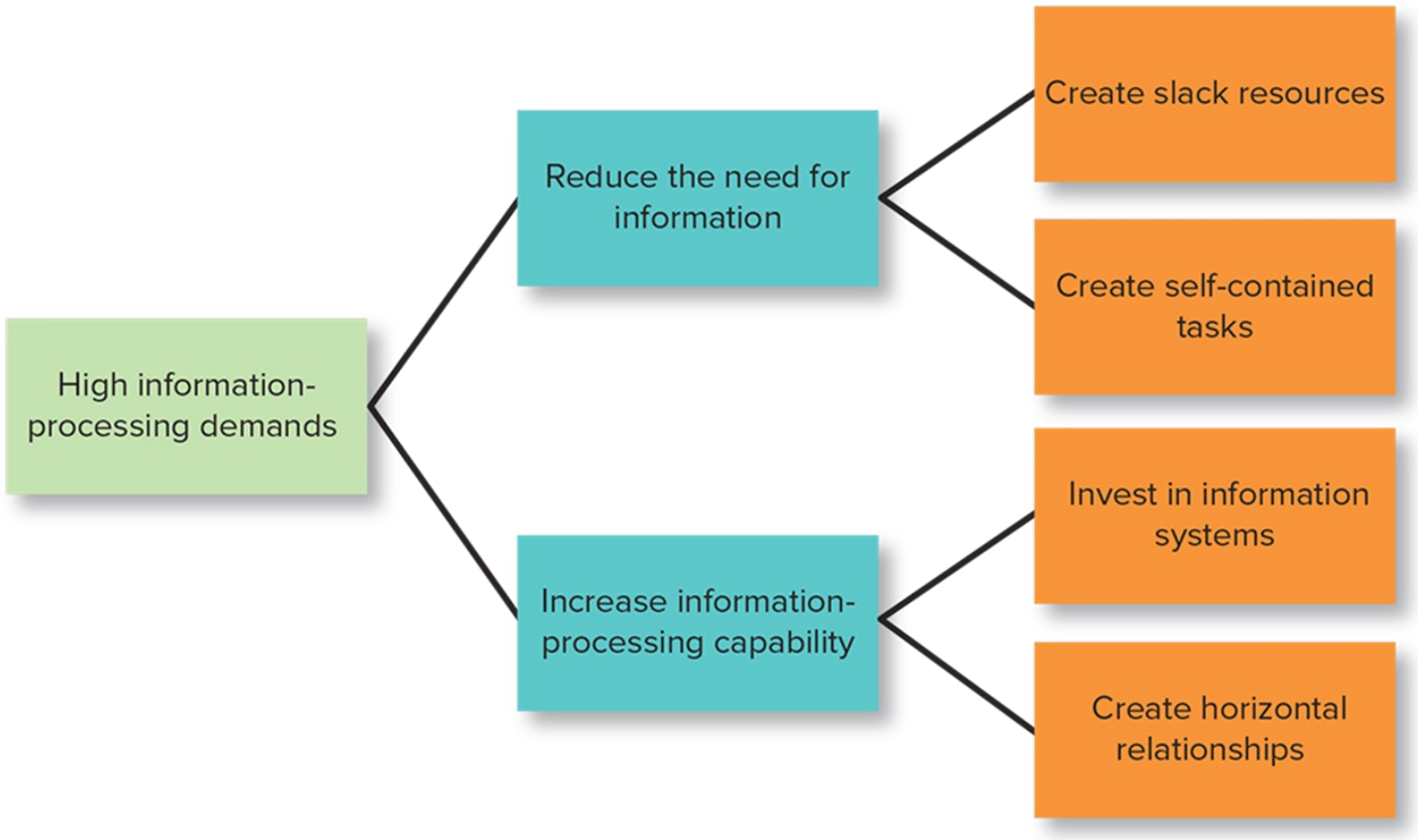
Exhibit 7.10 Managing High Information-Processing Demands



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Organizational Agility

Agility

Being able to act fast to meet customer needs and respond to other outside pressures.

Best structures for agility depend on the organization’s:

- Strategy.
- Customers.
- Technology.

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Strategies Promote Organizational Agility

Strategies

- Organize around core capabilities.
- Develop strategic alliances.
- Create a **learning organization**.
- Participate in a **high-involvement organization**.

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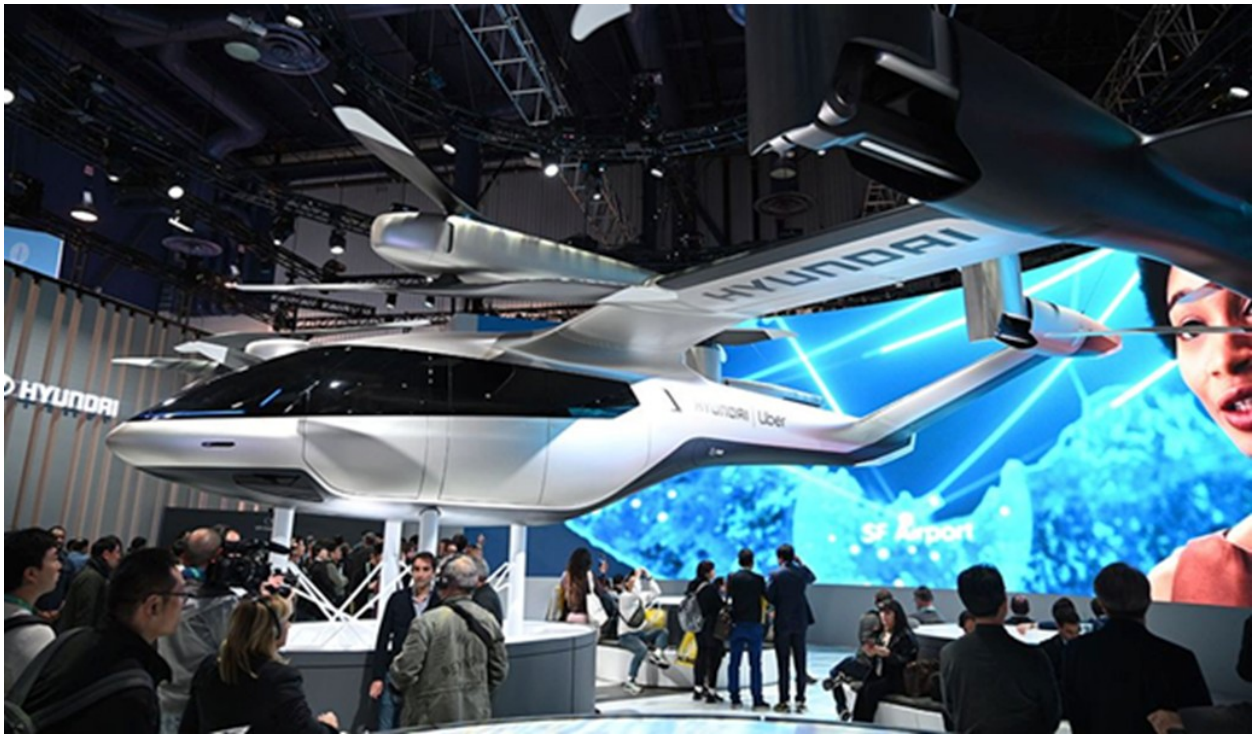
Strategic Alliance



Hyundai and Uber have aligned to develop autonomous "personal air vehicles." Shown here at the Consumer Electronics Show, the electric-powered air vehicle will shuttle up to four passengers at 180 miles per hour for 60 miles.

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Agile Organizations Focus on Customers

Organizing for Quality Improvement

Total Quality Management (TQM).

- An integrative approach that supports attainment of customer satisfaction through a wide variety of tools and techniques that result in high-quality goods and services.

Six Sigma quality approach analyzes defects.

ISO 9001 is a series of voluntary quality standards developed by a committee working under the International Organization for Standardization.

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Lean Six Sigma Eliminates Waste

3M is widely known as a leader in reducing waste and corporate pollution prevention through Lean Six Sigma methods that improve operational efficiencies. Thousands of 3M employees are trained in lean Six Sigma processes.

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Exhibit 7.11 Deming's 14 Points of Quality [1]

1. *Create constancy of purpose*—strive for long-term improvement (vs. short-term profit).
2. *Adopt the new philosophy*—don't tolerate delays and mistakes.
3. *Cease dependence on mass inspection*—build quality into the process on the front end.
4. *End the practice of awarding business on price tag alone*—build long-term relationships.
5. *Improve constantly and forever the system of production and service*—at each stage.
6. *Institute training and retraining*—continually update methods and thinking.
7. *Institute leadership*—provide the resources needed for effectiveness.

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Exhibit 7.11 Deming's 14 Points of Quality [2]

8. *Drive out fear*—people must believe it is safe to report problems or ask for help.
9. *Break down barriers among departments*—promote teamwork.
10. *Eliminate slogans and arbitrary targets*—supply methods, not buzzwords.
11. *Eliminate numerical quotas*—they are contrary to the idea of continuous improvement.
12. *Remove barriers to pride in work*—allow autonomy and spontaneity.
13. *Institute a vigorous program of education and retraining*—people are assets, not commodities.
14. *Take action to accomplish the transformation*—provide a structure that enables quality.

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Technology Can Support Agility 1

Technology

The systematic application of scientific knowledge to a new product, process, or service.

Basic technology configurations, according to research by Woodward:

- **Small batch** technologies.
- **Large batch** technologies.
- **Continuous process** technologies.

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Technology Can Support Agility 2

Organizing for Flexible Manufacturing

Mass customization allows organizations try to produce both high-volume and high-variety products at same time.

- Computer integrated manufacturing (CIM) helps make mass customization possible.
- Flexible factories provide more production options.

Lean manufacturing strives for highest possible productivity and total quality by eliminating unnecessary steps.

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Technology Can Support Agility 3

Organizing for Speed

Just-in-time (JIT) system calls for subassemblies and components to be manufactured in very small lots and delivered to next stage of production process just as they are needed.

- Companywide philosophy oriented toward eliminating waste and improving materials.
- Many believe this practice will continue to grow.
- Recent pandemic and geopolitical turmoil have shown JIT is vulnerable to supply chain disruptions.

Simultaneous engineering can speed up research and product development.

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Group Challenge

Who Makes the Decision?

At which level of management (i.e., top management, middle management, or first-level supervision) should the following decisions be made?

- Determining the size of dividends to be paid to shareholders.
- Deciding whether to approve an employee's request for vacation time.
- Selecting the insurance company to provide dental insurance to employees.
- Selecting the location for a new manufacturing facility in another state.

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Chapter Review

Fundamental characteristics of organizational structure.

- Organic, mechanistic, differentiation, integration.

The four dimensions of a firm’s vertical structure.

- Authority, span of control, delegation, centralization.

Four basic forms of horizontal structures.

- Functional, divisional, matrix, network.

Mechanisms to coordinate work.

- Standardization, planning, mutual adjustment, coordination.

How organizations can improve their agility.

- Strategy, commitment to customers, technology.

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